

# Bangladesh as the next destination: Deepening economic ties with Japan



The Daily Star in association with Standard Chartered Bank (SCB) Bangladesh organised a roundtable titled "Bangladesh as the next destination: Deepening economic ties with Japan" on September 19, 2019. Here we publish a summary of the discussion.

**Mahfuz Anam, Editor and Publisher, The Daily Star**



Japan has been a trustworthy and dependable friend since the birth of Bangladesh. It gives Bangladesh immense pride and confidence that Japan was one of the earliest countries to recognise our independence. Since then, we have had a strong bond with Japan. It has been the single largest development partner of Bangladesh. We are now looking into strengthening our economic relations, particularly business and investment relations, with Japan. We hope, in the near future, the relationship between Japan and Bangladesh will reach new heights, and as a newspaper, The Daily Star will support every effort that strengthens the bond between these two trusted friends.

**Brig. Gen. Shahedul Anam Khan, ndc, psc, (Retd.), Associate Editor, The Daily Star**



Japan is now the ninth-largest export destination for Bangladesh. On the other hand, as per one estimate, 75 percent of Japanese companies see Bangladesh as a priority for investment. There are more than 250 Japanese companies in Bangladesh. Bangladesh has improved a lot in the Global Competitiveness Index. However, there are still issues such as poor infrastructure and weak regulatory environment that make Bangladesh a disincentive for many investors. We need to overcome these issues to attract more investments from Japan.

**Ahsan H Mansur, Executive Director, Policy Research Institute (PRI)**



Japan has always been a major development partner of Bangladesh. As of 2019, Japan is Bangladesh's ninth-largest export market. On the other hand, Japan stands fourth after China, India and Singapore, in terms of major importing countries. Although the trade gap between Japan and Bangladesh has been widening in dollar terms, the ratio of exports to imports has been increasing in recent years, which signifies that Bangladesh is gaining an export growth relative to the import growth.

The Bay of Bengal Industrial Growth Belt (BIG-B) intends to accelerate industrial agglomeration along the Dhaka-Chittagong-Cox's Bazar belt area and beyond, and the primary emphasis is on improving connectivity. Along with this, the strategy also aims to include the construction of a major power hub in Matarbari and a new deep-sea port.

So, why Bangladesh? Bangladesh offers a number of opportunities and under-utilised potential which can be exploited for the mutual benefit of Bangladesh and Japan. These include a large pool of semi-skilled and skilled labour, as Japan faces a serious shortage of working-age population. Japan has a high level of accumulated savings which it needs to invest in countries outside Japan due to its ageing population and to get adequate return on investment. Another reason behind choosing Bangladesh is that Japan has decided to follow the China-plus policy, due to which it is trying to geographically diversify its production base across the region.

On the other hand, Bangladesh has great growth prospects in comparison to matured economies. It also has a geographical and geopolitical advantage, being located between Asia's two largest economies, India and China.

However, Japan's inflow of FDI remains quite low and it does not even fall under the top 10 FDI originating

countries for Bangladesh, both in terms of flow and stock. Japanese investment in Bangladesh was USD 58.4 million in 2018 while that in Myanmar was USD 384 million. This unfortunate situation is mostly due to Bangladesh's failure in attracting FDI and the negative perception about future potentials for foreign investment in Bangladeshi economy. It is most unfortunate because Bangladesh is a much bigger economy, has a larger and better production base, has a much larger and fast-growing domestic market of more than USD 300 billion and a population of 170 million, and also offers a much better mix of skilled workers when compared with countries like Myanmar or Cambodia. However, attracting FDI from Japan and other countries continues to remain a major challenge, given Bangladesh's poor ranking in doing business, international productivity measures and numerous other indicators. Bangladesh should preach to the foreign investors that all foreign companies operating in Bangladesh are expanding and are likely to stay forever. If Japan can enhance its private investments and FDI in Bangladesh, it will be beneficial for both the countries. Bangladesh and Japan's economic relations will be better with the inflow of investments, rather than just aid.

**Naser Ezaz Bijoy, CEO, Standard Chartered Bank Bangladesh**



More than five thousand companies in Japan are looking for alternative investment opportunities. Bangladesh can be a lucrative destination for them because the consumer economy in the country is flourishing rapidly. The country is expected to be a half a trillion USD economy in the next five years' time. The aspiration to become a high-income country by 2041 requires Bangladesh to become a three trillion USD economy. This is where the partnership with countries such as Japan is important.

Bangladesh has managed to grow successfully despite many challenges regarding the ease of doing business. The government has taken various initiatives to attract foreign investments. Introducing one-stop service for investors, developing a special economic zone at Atrahaz, Narayanganj, for Japanese investors, a JICA-funded project, etc are powerful initiatives in this regard.

Our discussion shouldn't be limited to FDI only. There are also opportunities in trade and human resource exports. Japan is known to be efficient in all those aspects. An important topic for discussion can be how we can learn from the Japanese, particularly in terms of capacity development. In terms of trade and export, we need to look beyond garments products. The import basket of Japan is worth \$670 billion, of which Bangladesh covers only 0.2 percent. There are a lot of things that can be exported to Japan, for example: smartphones, integrated circuits, plastics, light engineering, cables, leather goods and more. Japan imports more than \$100 billion of these products. If Bangladesh can go from 0.2 percent to 1 percent, that means an additional USD six billion which is a huge opportunity. Japan and Bangladesh enjoy a special relationship which stood the test of time. The relationships between governments and private sectors of two friendly nations have reached to a new height in recent years. Therefore, Japanese investors have never been more interested to invest in Bangladesh. Clearly it is a win-win proposition as slowing growth in developed markets and potential impact of US-China trade relation - makes a compelling case to invest in Bangladesh as it offers a decade-long strong and consistent growth story. However, some key administrative and regulatory simplification, needs to be done with

urgency for Bangladesh to realize its full potential. We are very optimistic about the prospects and are eager to serve our clients at the both ends.

**Yasunori Takeuchi, CEO, Standard Chartered Bank Japan**



The Japanese government has invested a huge amount of aid and grant in Bangladesh. The Japanese private sector has also invested in the country, particularly in the RMG sector. Those investments from both the government and private sector have created a virtuous cycle for economic growth. But there is a gap in creating value chain through these investments. However, the recent investments by Japan have a really good future. Firstly, recent infrastructure projects supported by Japanese government focus on critical infrastructure such as Matarbari power plant, MRT, airport terminal and railway bridge. All these infrastructures are fundamentally important for the sustainable growth of Bangladesh. Secondly, private sector investment in Bangladesh is targeting the emerging consumer market. Bangladesh's GDP per capita is approaching USD 2,000. Experts opine that when a country's GDP per capita exceeds USD 2,000, people start to invest in durable goods. Honda is investing in manufacturing. There is also JTI which has made huge investments in search of a consumer market. This is a very encouraging trend. Thirdly, some of the Japanese trading companies are investing in the industrial zones. Industrial zones are by nature for the manufacturers and sizable investors leading to creation of employment. These three points make a continuous sustainable cycle of economic growth.

There are several things that can be done to attract Japanese investment in Bangladesh. One is to attract board members of big Japanese companies and make them see the potential of Bangladesh. The cultural gap in business practices between Japan and Bangladesh needs to be overcome through mutual understanding. Within Standard Chartered we are overcoming this gap through face-to-face communication. Bureaucratic hassle is another factor that Japanese investors really care about before making any investment decision. Security is another important issue. Lastly, we need to create a favourable ecosystem. To attract manufacturing companies, we also need to attract their ancillary sectors. For example, the auto industry needs 30,000 parts. If the suppliers of these parts don't come to Bangladesh, the auto manufacturers will not be able to sustain in the market.

**Sajjadur Rahman, Editor, Star Business, The Daily Star**



Many Japanese companies are showing interest in Bangladesh but only around 270 are active in the country. The number is quite low compared to Bangladesh's potential as an emerging investment destination. Our government has been looking for increased Japanese cooperation for the last 10 years. It has allocated special economic zones for Japanese companies. More such facilities should be developed to attract FDI in the country. The One Stop Service Act needs to be implemented in a more efficient manner.

**Yuji Ando, Country Representative, Ietro**



Back in 2011, there were only 100 Japanese companies in Bangladesh. The number has tripled over the last nine years. Bangladesh has become a potential investment

destination for Japanese companies. Honda has expanded its production in Bangladesh. We are expecting investment from Japanese motorcycle parts manufacturers. Our FMCG companies want to expand their footprint in Bangladesh. In the next few years, infrastructure in Bangladesh will develop immensely and we look forward to more Japanese investment in the country.

Japan can greatly help Bangladesh in industrial diversification which stands as a key factor for the country's economic growth. Our potential investment areas are special economic zones. We expect the government to develop it punctually. We also expect the government to simplify the administrative procedures including tax regime and to digitise all its services so that no Japanese company suffers from tax hassles.

As far as I know, the current number of domestic sales of motorcycles in Bangladesh is four lakh while Honda's production volume is one lakh. There are two ways to increase the number of the sales volume. One is to set up a motorcycle loan scheme by the banks. Another is to decrease the customs tax, especially supplementary duties on import materials. The current tax structure works as a disincentive for Honda to make a decision to invest here.

There are several factors that discourage private investment from Japan. In the banking sector, requirement of opening LC for import is a major barrier. Overseas remittance is also regulated. Another factor is that long-term loans from overseas are regulated especially for working capital. Due to such regulations, investment in Bangladesh becomes difficult.

**Mamun Rashid, Managing Partner, PwC Bangladesh**



Japanese companies are nice and polite but they are losing out to Chinese and Indian companies in Bangladesh due to their lack of aggressiveness. With regards to Taiyo Life Insurance Company, for example, we met concerned ministers multiple times. The finance minister assured us of doing everything to attract investment from large Japanese companies. However, the reality is that like Taiyo, many Japanese companies could not perceive safety and security for their people and they turned away. Japanese organisations such as JETRO and JICA need to play bigger roles regarding reassuring the Japanese companies about Bangladesh by informing them of the growing market and per capita income and disposable income increase.

There is no doubt that Bangladesh has to improve on many things such as liberalising the trade regime, tax regime and the bureaucratic mindset of civil bureaucrats. At the same time, we would like to send a message in the presence of SCB, PwC, DFDL and other multinational companies that can facilitate Japanese investment, unlike in the past, in a more aggressive way.

As of now, one encouraging story is that of Japanese car manufacturers. Because of the recent changes in the government policy, Japanese companies can set up manufacturing plants in Bangladesh and export cars from Bangladesh to other Japanese car markets. They should take advantage of the special economic zones being established in Bangladesh.

**Shariful Alam, Country Manager, Mitsui & Co. and Vice President, Japan-Bangladesh Chamber of Commerce and Industry (JBCCI)**



Mitsui started its journey in Bangladesh in 1958. We have been contributing to the needs of the country's growth in trading and infrastructural

development. Currently we are developing gas fired power plant with Coal Power Generation Bangladesh for 630MW power plant in Matarbari. We also have been interested in developing LNG and LPG related investment and trading with nation building approach. Our trading business also caters the needs of local large conglomerates in various fields. One of the major reasons behind the comparatively lower interest of Japanese companies to invest in Bangladesh could be inadequate infrastructure. Such as non-existence of deep-sea port. The average customs clearance days in Chittagong sea port and Shah Jalal International Airport is comparatively very high. Just to give an example, although the port authority has enough money, the port doesn't have enough equipment such as gantry cranes. Other major barriers are high import duty of goods which cause under invoicing and tax harassment. In the 4th PPED (public-private economic dialogue) which was held in July in Dhaka we raised these issues. Some of these issues are being addressed but not in the speed we expected it to be. We also face difficulties working with local companies in terms of joint venture or investment since they are yet to have internal level of corporate practices and are not aware of investment process. They of course welcome investment but at the actual process it is hard to get their understanding on the international way of investment process. I think that's where Standard Chartered, PwC or DFDL can play important roles.

With the help of JICA, Matarbari island is being developed where mega scale projects such as deep sea port, power plant, coal terminal, LNG terminal, LPG terminal etc are being developed. It will be "Power and Energy Hub" of Bangladesh. This will be real "Game Changer" for Bangladesh.

We have around 300 Japanese companies in Bangladesh but most of them are involved in the RMG and construction sector. However, there are a lot of other opportunities in Bangladesh consumer market in which the Japanese companies are quite interested. According to a study by Boston Consulting Group, there will be 34 million people in the MAC (Middle and Affluent Class) in Bangladesh by 2025 if we take the same growth rate into consideration, there will be 50 million MAC population in 2030, which will be a huge consumer market. Our company is seriously considering this potential and is interested in making investment in Bangladesh with consumer centric approach.

**Max Lobachev, Managing Director, United Dhaka Tobacco Company Limited (A member of Japan Tobacco Group)**



Japan Tobacco, the third largest publicly traded tobacco company in the world, completed its USD 1.47 billion acquisition of Akij Group's tobacco business in what is the biggest-ever private FDI in Bangladesh. JTI has been the fastest growing tobacco company for the last 20 years in the world and is excited to expand its footprint in Bangladesh.

Bangladesh has been referred to lately as a new Asian tiger. The economy is growing consistently at a high rate. The government is pro-business and is already doing a lot of work to attract FDI. JTI has a track record of bringing world-class Japanese quality and innovation to the markets by investing in our people, brands, and introducing international standards and practices in all aspects of the business. We look forward to very exciting times in Bangladesh! I would like to thank Standard

Chartered Bank for its significant role in the successful closing of the transaction through their highly professional advice, cooperation and support. On this journey, we will continually seek your guidance and support to build what will hopefully be recognised as a role model for FDI in Bangladesh.

**Tareq Rafi Bhuiyan (Jun), Secretary General, Japan-Bangladesh Chamber of Commerce and Industry (JBCCI)**



An interesting development is that JICA, which used to deal with overseas development assistance projects, is taking interest in private sector companies in Bangladesh. JICA, for example, has signed investment agreements with Ship Aichi Medical Service Limited, a joint venture between East-West Medical College Hospital of Bangladesh and Green Hospital Supply Inc. of Japan, to expand medical care services in Bangladesh.

The completion of Mirsarai Economic Zone and Japanese Economic Zone at Atrahaz in Narayanganj will boost Japanese investment in Bangladesh further and soon, we will see the number of Japanese companies in Bangladesh crossing 500. Japanese companies generally take a long time to make investment decisions in a foreign country, and this is because their due diligence process is long and they invest after making sure that they can do the business in the long term. However, recently, we have been seeing several Japanese SMEs coming to Bangladesh with decisions made in less than a few months. This is a powerful precedence for large companies.

Finally, large Japanese companies like Sumitomo, Mitsui are going beyond their traditional role of trading and started to invest in Bangladesh. This is another exciting development.

**Ali Z Chowdhury, General Manager, Tekken Corporation**



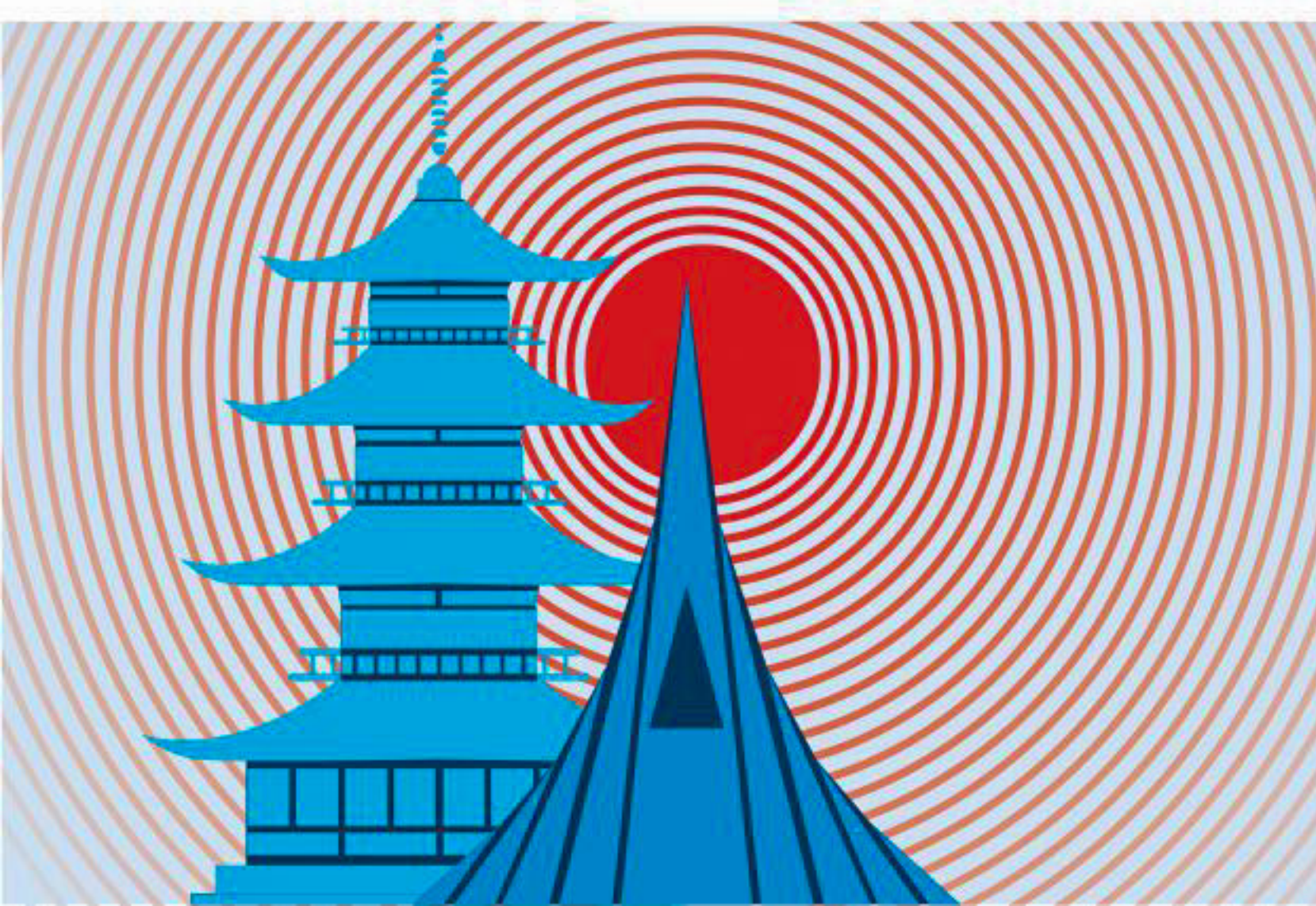
As a construction company, we generally face problems such as Bangladesh government's reluctance to follow international construction guidelines and delay in land acquisition. If these problems can be resolved, the infrastructure development in Bangladesh will be fast and more investment will pour in.

**Shahwar Nizam, Partner, DFDL Bangladesh**



Bangladesh has one of the most FDI friendly legal regimes in the entire region. Foreign investors can own assets through a local company, having no issues on profit repatriation, and receive many tax and other incentives. But the devil is in the details. Unfortunately, we still have quite an archaic foreign exchange regulation act which is seen as a major barrier to foreign investment by the investors. However, recently, Bangladesh Bank has undertaken various steps that ensure that liberalisation and streamlining is in place. At the ground level, we also see a welcoming approach from the regulators.

If we can properly implement the One Stop Service Act and streamline different regulatory and licensing requirements in an automated system, great change will be underway.



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